

CHAPTER 4

ACCOUNTS PAYABLE

4-1. General.

a. Accounts payable are amounts owed by the U.S. government to others for goods and services received, progress in contract performance, and rents. This chapter provides accounting policy for recognizing accounts payable, including accruals. The guidance applies to accounts payable funded by civil, military, Revolving Fund, or reimbursable sources.

b. The accrual basis of accounting is used for all appropriations and funds as prescribed by the Government Accountability Office. The Federal Accounting Standards Advisory Board (FASAB) establishes Generally Accepted Accounting Principles (GAAP) and reporting requirements for federal entities. Financial reporting for liabilities is addressed in the Statement of Federal Financial Accounting Standards Number 1 (SFFAS 1).

c. Under the accrual basis of accounting, full disclosure is made of all changes in liabilities and expenses resulting from transactions or events that affect these items. The use of accrual accounting ensures that the accounting records portray an accurate and complete picture of expenses for a given accounting period and of the financial condition at the end of the period.

4-2. Policy for Accounts Payable.

a. Recording Accounts Payables.

(1) Liabilities for payment, or accounts payable, are recorded in accordance with Volume 4, Chapters 8 and 9 of the Department of Defense Financial Management Regulation (DoDFMR), http://www.dod.mil/comptroller/fmr/04/04_08.pdf and http://www.dod.mil/comptroller/fmr/04/04_09.pdf.

(2) Accounts payable are recorded upon receipt of services or acceptance of title to goods, whether delivered or in-transit. Accounts payable shall be supported by adequate evidence of the existence of the liability (e.g. purchase order or contract, and proof of receipt). Receiving reports must be entered in the financial management system within five workdays after receipt and acceptance of goods or services.

b. Prevalidation. Prevalidation is the process of matching the planned disbursement with a recorded obligation before the invoice payment is made. The requirement is to determine before the payment is made that the undisbursed balance of the obligation is sufficient to cover the amount of the planned disbursement. The process is intended to minimize the occurrence of problem disbursements and Antideficiency Act violations. Established thresholds for the prevalidation of vendor and contract payments are as follows:

(1) All invoices, excluding certain MOCAS payments, are matched to a recorded obligation in the financial management system prior to disbursement.

(2) Mechanization of Contract Administration Services (MOCAS) payments. Prevalidation is being phased in for MOCAS payments to avoid significant payment delays. For contracts awarded during/prior to FY2004, a \$7,500 threshold applies. For contracts awarded during/after FY2005, a zero threshold applies. DoD guidance is available at DoDFMR Volume 10, Chapter 1, http://www.defenselink.mil/comptroller/fmr/10/10_01.pdf.

c. Unfunded Liabilities.

(1) Accounts payable shall be recorded regardless of the availability of funds. Accounts Payable not covered by budgetary resources will be accrued as an unfunded liability in the USACE Revolving Fund until the actual source of funding is determined. Unfunded liabilities are reported in the footnotes to the Consolidated Balance Sheet, in order to disclose potential liabilities not recorded due to a lack of funding.

(2) Unfunded contractor earnings performed in accordance with the Civil Works Continuing Contracts clauses will also be reported as unfunded liabilities. The amount accrued will include the interest on unfunded earnings, as determined by the contracting officer, that would have been paid but for the exhaustion of funds.

d. Judgment Fund. Certain judicially and administratively ordered monetary awards against the U.S. Government, including Department of Justice compromise settlements, are disbursed by the U.S. Treasury from the Judgment Fund. Federal agencies are required to reimburse the Treasury for payments made on their behalf from the Judgment Fund.

(1) Claims for Contract Disputes (Treasury Symbol 20X1743).

31 USC 1304 and 41 USC 612 provide that monetary judgments under the Contracts Disputes Act of 1978 (CDA), as amended, which are awarded by the Armed Services Board of Contract Appeals (ASBCA) or the Court of Federal Claims, are paid by the Department of the Treasury from the Judgment Fund. After payment is made to the contractor, the affected DoD Component is required to reimburse the Department of Treasury's Judgment Fund. Judgment Fund debt shall be reimbursed from the appropriation that funded the original contract. The Contract Dispute Act requires that payments be made from funds current at the time of the judgment and from the same type of funds cited on the original contract.

(a) Military claims or settlements. USACE activities shall bill the customer for the amount of the Judgment Fund bill plus Supervision & Administration (S&A). DoD guidance concerning Judgment Fund payments is available in DoDFMR Volume 10, Chapter 12, and DoDFMR Volume 3, Chapter 8, http://www.defenselink.mil/comptroller/fmr/10/10_12.pdf, http://www.defenselink.mil/comptroller/fmr/03/03_08.pdf.

(b) Civil claims. Civil Works claims shall be forwarded to CERM-F.

(2) The Notification and Federal Employee Antidiscrimination Retaliation (NO FEAR) Act. Public Law 107-174, the No Fear Act, requires that agencies reimburse the Judgment Fund for payments made on their behalf concerning violations or alleged violations of Federal discrimination laws, Federal whistleblower protection laws, and/or retaliation claims arising from the assertion of rights under those laws. Agencies are required to reimburse Treasury within 45 days of notification.

(a) Military Activities. Military activities shall reimburse the Judgment Fund for No Fear Act claims citing the direct appropriation which funded the claimant's position. If funds are not available, activities shall submit an unfunded requirement to HQUSACE and record an unfunded liability in the financial management system.

(b) Civil Works Activities. Civil Works activities shall reimburse the Judgment Fund for No Fear Act claims from the appropriate overhead account for the individual filing the claim.

(c) HQ/MSC. Claims for individuals assigned to HQUSACE or a Major Subordinate Command shall be funded from the appropriate Executive Direction and Management (ED&M) account.

(d) Out of Court Settlements. USACE activities will pay

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settlements reached between the two parties directly to the claimant. Guidance concerning timeframes and funding source are as specified above.

e. Intra-governmental Transactions. Amounts owed for goods and services received from Federal agencies are reported separately from amounts owed to the public. DoD FMR, Volume 6B, Chapter 13, requires all DoD components to reconcile intra-governmental transactions when compiling the Chief Financial Officer (CFO) financial statements. USACE is a waived entity, which means that DoD grants USACE the authority to provide accounts payable and expense information to other DoD entities. As a waived entity, trading partners must automatically accept USACE accounts payable and expenditure data as accounts receivables and revenues in their financial statements. Emphasis must be placed on the validity of expenditure data, in order to ensure proper financial reporting by USACE and other DoD agencies.

f. Prompt Payment Act (PPA) Interest Payments. PL 97-177, as amended, requires Federal agencies, including non-appropriated activities, to pay their bills on time, to pay interest penalties when payments are made late, and to take discounts only when payments are made within the discount period. If no date is specified in the contract, payment will be made 30 calendar days after receipt of a proper invoice or 30 calendar days from acceptance of the goods or service, whichever is later.

(1) Interest penalties will be funded by the same program, project, activity, or revolving fund account cited on the contractual document.

(2) PPA interest penalties resulting from late payments citing non-Corps reimbursable funds may be charged to the responsible activity's overhead account when all of the following conditions apply:

- there are insufficient funds on the reimbursable order to pay the interest penalty,
- the late payment will be the final charge against the reimbursable order, and
- the interest penalty does not exceed \$100.

(3) Project funds will be charged for interest expense related to procurement of civil or military assets citing an expense type work item; interest penalties will not be capitalized in the cost of the asset. For Revolving Fund assets, interest will be charged to the appropriate departmental, G&A, or

shop & facility work item.

(4) Additional guidance on PPA and interest penalties is contained in the DFAS-IN Regulation 37-1, Chapter 11 and Appendix E, Desk Reference Guide for Prompt Payment Act:
<https://dfas4dod.dfas.mil/centers/dfasin/library/ar37-1/index.htm>.

g. Prompt Payment Act Discounts. Amounts recorded as accounts payable shall be net of discounts offered by vendors.

(1) When a cash discount has been offered for prompt payment, every effort should be made to process the invoice within the discount period if economically justified. All offers of discounts appearing on a vendor's invoice will be considered as authorizing the deduction of the discount if earned. If the discount terms of the contract or purchase order are not in agreement with the discount offered on the vendor's invoice, the discount most advantageous to the Government will be taken.

(2) Computation of the discount period is conditioned on the receipt of a proper invoice when an invoice is required by the contract. The period for taking the discount is calculated from the date placed on a proper invoice by the vendor. If the vendor does not date the invoice, the discount period start date is the receipt date annotated on a proper invoice by the designated billing office.

(3) Invoices which, through no fault of the contractor, cannot be paid within the discount period will be paid in the full amount adhering to the normal payment terms.

(4) Additional guidance is contained in DoDFMR Volume 10, Chapter 2, http://www.dod.mil/comptroller/fmr/10/10_02.pdf.

h. Reviewing Accounts Payable Balances.

(1) Funds are allotted to Commanders. The supporting accounting offices are required to conduct a joint review with originating offices of commitments, obligations, accounts payable, and accounts receivable to determine timeliness, accuracy, and completeness of unliquidated obligation data. Reviews are conducted during each of the four-month periods ending on January 31, May 31, and September 30 of each fiscal year. For Accounts Payable, the purpose of the review is to ensure that all known payables have been recorded and that the amounts reported are correct and in agreement with subsidiary records. The Joint Review Program (JRP) requirements apply to all appropriations and funds, to include reimbursable

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transactions, trust funds, and the USACE Revolving Fund. Documentation evidencing the review must be maintained for a period of 24 months following the review for audit purposes.

(2) DA and USACE goals for the Joint Review Program are published on an annual basis. Accounts payable are reviewed in each of the JRP phases using the same criteria (appropriation status, dollar amounts, aging, etc.) as established for reviewing commitments and obligations.

(3) Confirmation statements. Commanders are required to certify that the Joint Review has been conducted in accordance with DoD and DA guidance; certification authority may be redelegated to the Resource Management Officer. Confirmation statements are submitted in the Corps of Engineers Management Information System (CEEMIS) in accordance with established due dates, for submission to DA. Exception reports are required if fund holders are unable to complete the required review or confirm the accuracy of data. A full explanation of the issues and corrective actions being taken must be provided to CERM-F for reporting to Department of Army.

(4) Additional guidance on JRP requirements is contained in DoDFMR Volume 3, Chapter 8, and DFAS IN 37-1, Chapter 27, <http://www.defenselink.mil/comptroller/fmr/03/index.html>; <https://dfas4dod.dfas.mil/centers/dfasin/library/ar37-1/chap27.pdf>.

4-3. Policy for Recording Estimated Accounts Payable (Accruals).

a. General. Accounts payable shall be estimated to the end of an accounting period when goods or services have been received but exact amounts are not known. Accruals shall be recorded only if the event in question has actually occurred (or is projected to occur by the end of the accounting period) and reasonable documentation exists to support the amounts recorded. Accruals will not be entered when a receiving report is more appropriate.

(1) Amount. The amount accrued will be a reflection of the work performed and the liability incurred. Best estimates may be used; however, arbitrary pro-rations should be avoided.

(2) Documentation. Reasonable documentation is generally considered to be documentation that would allow another reasonably knowledgeable individual to come to the same logical conclusion. Individuals who enter accruals must maintain audit documentation for all accruals for one year after payment is made or after the accrual is reversed. For accruals of \$2,500 and

over, an accrual support form must also be completed and maintained. In addition, the Resource Management Office must review and approve the supporting documentation for all accruals over \$100,000. Acceptable documentation includes:

(a) Receiving reports, executed bills of lading, issue and turn-in slips, job sheets, or other documents that prove constructive delivery, work was performed, services rendered, or material received;

(b) Unpaid invoices from vendors that have been approved for payment, including progress payment requests;

(c) Journal vouchers, or their equivalent, showing accrual estimates prepared by responsible individuals where these documents are used in keeping with accepted accounting practice; for example, estimates of construction-in-progress/work-in-progress. Use of email to provide rationale for estimates or correspondence with contractors is acceptable;

(d) Obligation documents in cases where accrued expenditures are recorded simultaneously with obligations and services have been performed (examples: in-house labor, facility services, etc.);

(e) Completion of work documents.

(3) Timing. Accruals will be recorded on a monthly basis at a minimum for contractor earnings, intra-district activities, and hired labor. All valid accruals shall be recorded quarterly, regardless of dollar value.

b. Contract Earnings. Accrued expenditures will be recorded for performance (including retained earnings) to the end of each calendar month for construction contracts, major supply contracts (e.g., turbines, generators, transformers, fabricated steel), equipment rental contracts, Architect-Engineer contracts for design services, and reimbursable orders placed with other Federal activities, including other Corps of Engineers activities. Engineering estimates and management evaluation of actual performance shall be used to determine amounts for accrued contract earnings.

c. Hired Labor. Labor costs will be accrued to the end of the each calendar month using early labor cost cutoff procedures.

d. Reversal. Accruals will be reversed when a receiving report or invoice can be recorded, or when the accrual is subsequently determined to be invalid. If the accrual is

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reversed and less than 70% of the original amount accrued is subsequently disbursed, a statement must be added to the support form explaining the variance.

(1) For all payments involving contractual obligations, receiving offices are responsible for reversing accruals at the time a receiving report or contract pay estimate is entered.

(2) The originating office/activity is responsible for reversing any accrual if it is subsequently determined to be invalid.

(3) The USACE Finance Center (UFC) will automatically reverse accruals in order to record intra-governmental invoices received. This process facilitates timely payment and collection of government billings. Supported activities will provide the required permissions in the financial management system to UFC personnel. Where the actual amount billed is less than 70% of the accrued amount, the originator at the supported activity is responsible for adding a statement to the support form explaining the variance.

e. Review of Accrual Documents. Resource Management shall perform a monthly review to ensure that each accrual over 90 days old is valid and properly supported by documentation. Any accrual over ninety days old requires justification from the originator as to why the accrual remains open. Normally, accruals will be reversed and actual costs recorded in the month following the initial recording of the accrual. Documentation supplied by the originator will be maintained for audit purposes.

4-4. Accounts Payable Procedures. Proper procedures for Accounts Payable and accruals are available at <http://www.usace.army.mil/inet/functions/rm/finance/finance.htm>.